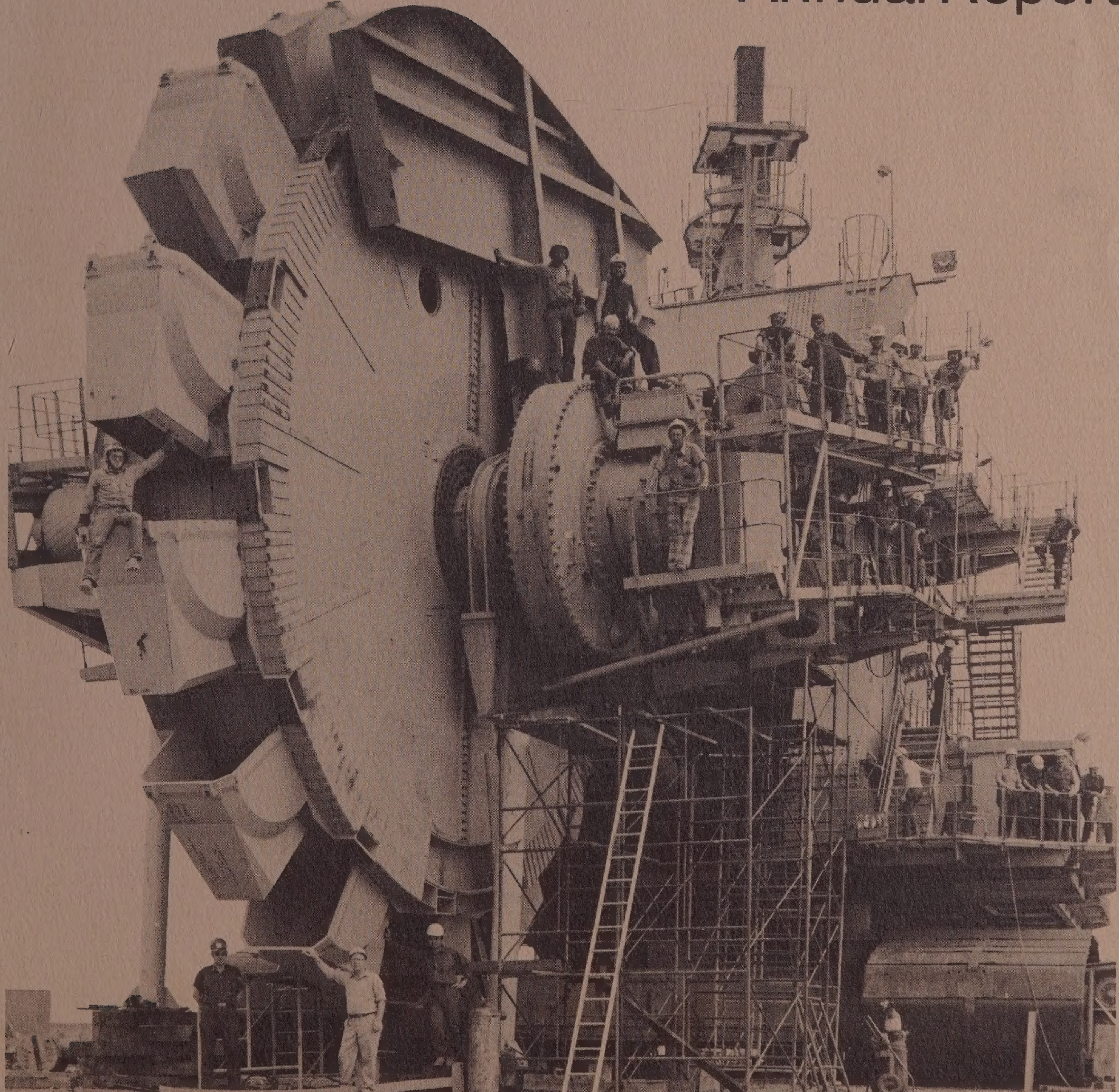
Great Canadian Oil Sands Limited 1976 Annual Report



Directors

Theodore A. Burtis, Radnor, Pa.*
President, Sun Company, Inc.

Stanley A. Cowtan, Edmonton

Kenneth F. Heddon, Toronto

Gordon E. Hillhouse, Radnor, Pa.*
Executive Vice-President, Sun Company, Inc.

Ardagh S. Kingsmill, Toronto
Partner, Tilley, Carson & Findlay

Robert McClements, Jr., Dallas, Texas*
President, Sunoco Energy Development Co.

Dudley M. McGeer, Toronto

William S. McGregor, Edmonton
President, Numac Oil and Gas Ltd.

W. Harold Rea, Toronto
Vice-President, The Mutual Life Assurance Company of Canada

J. Grant Spratt, Calgary
Petroleum Consultant

Principal Officers

W. Harold Rea
Chairman of the Board

Kenneth F. Heddon
President

Stanley A. Cowtan
Vice-President and General Manager

Brian T. Abbott
Vice-President, Logistics and Environmental Conservation

Dudley M. McGeer
Vice-President, Administration

Ardagh S. Kingsmill
Secretary

Anthony A. L. Wright
Treasurer

*denotes other than Canadian citizen

Head Office
20 Eglinton Avenue West
Toronto, Ontario M4R 1K8

Edmonton Office
2900 Alberta Telephone Tower
Edmonton, Alberta T5J 1X2

Transfer Agent and Registrar
The Canada Trust Company
110 Yonge Street, Toronto, Ontario
10150-100th Street, Edmonton, Alberta
239-8th Avenue S.W., Calgary, Alberta

General Counsel
Tilley, Carson & Findlay
Toronto, Ontario

Annual Meeting
The Annual Meeting of Shareholders will be held in the Gold Room, Park Plaza Hotel, 4 Avenue Road, Toronto, Ontario at 10:00 A.M. (Toronto time) on Wednesday, May 4, 1977.

Highlights of the year

	1976	1975
Financial	(Dollars in thousands)	
Revenues	$159,827	$124,434
Profit (loss) before extraordinary item	9,012	(3,641)
Net profit (loss) for the year	11,962	(991)
Cash flow from operations	27,190	7,724
Capital expenditures	15,124	25,456
Total assets	331,884	332,811
Accumulated deficit	67,239	79,201
Operating		
Average daily production of synthetic crude (barrels)	47,750	42,555
Overburden removed (thousands of cubic yards)	12,051	10,071
Oil sands mined (thousands of short tons)	36,068	32,712

Front Cover
New bucketwheel excavator dwarfed assembly crew as it took shape at GCOS plant. Machine went into operation in December.

Great Canadian Oil Sands Limited

PRINTED IN CANADA

MID-YEAR REPORT
TO
SHAREHOLDERS

GREAT CANADIAN OIL SANDS LIMITED

Financial results for the first half of 1976 indicate a profit of $8,491,000 for your company, including an extraordinary gain of $2,666,000. This compares to a $10,059,000 loss for the like period in 1975. Revenues for the period were $76,107,000 as opposed to $45,126,000 last year. The extraordinary item is a reduction of the income tax provision due to prior years' losses.

The improvement results from higher, more consistent levels of production, particularly over the second quarter. It also reflects the $1.50 per barrel increase in crude prices which went into effect July 1, 1975. Production for the first six months totalled 8,703,000 barrels of synthetic crude oil, up more than 43 per cent over the first half of 1975 when production was 6,078,000 barrels.

The recent crude price increase announced by the Federal Government which went into effect July 1, will improve revenues in the last half of the year.

AUGUST, 1976

GREAT CANADIAN OIL SANDS LIMITED
CONSOLIDATED INTERIM REPORT
FOR THE SIX MONTHS ENDED JUNE 30, 1976

STATEMENT OF PERFORMANCE AND DEFICIT

Six Months ended June 30

	1976	1975*
	(Thousands of Dollars)	
REVENUES		
Sales and other operating	$ 75,348	$ 44,464
Interest	759	662
	76,107	45,126
EXPENSES		
Overburden removal	6,005	3,437
Plant operations	33,544	33,243
Depreciation	4,785	3,649
Amortization of deferred preproduction costs	1,008	730
Loss on disposals of plant, equipment and housing	137	45
Crown royalty	9,115	4,424
Lease royalty	3,255	1,874
Administrative and general	4,485	4,851
Interest	3,710	2,932
Income tax provision	4,238	—
	70,282	55,185
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEM	5,825	(10,059)
EXTRAORDINARY ITEM — reduction of income tax provision due to prior years' losses	2,666	—
NET PROFIT (LOSS) FOR THE PERIOD	8,491	(10,059)
DEFICIT January 1	(79,201)	(78,210)
DEFICIT June 30	$(70,710)	$(88,269)

**Reclassified to conform with 1976 presentation.*

The above figures are unaudited

STATEMENT OF CHANGES IN FINANCIAL POSITION

Six Months ended June 30

	1976	1975*
	(Thousands of Dollars)	
SOURCE OF WORKING CAPITAL		
Profit (loss) before extraordinary item	$ 5,825	$(10,059)
Add back (deduct) items not affecting working capital		
Extraordinary item	2,666	—
Depreciation	4,785	3,649
Amortization of deferred preproduction costs	1,008	730
Net increase in deferred overburden removal costs	(2,033)	(1,272)
Deferred income taxes	1,572	—
Loss on disposals of plant, equipment and housing	137	45
	13,960	(6,907)
Disposals of plant, equipment and housing	2,801	1,012
Issue of common shares	—	2
New mortgages payable on housing	952	3,998
ADDITIONS TO WORKING CAPITAL	17,713	(1,895)
USE OF WORKING CAPITAL		
Purchases of properties, plant and equipment	4,561	9,605
Housing	2,305	3,175
Notes and mortgages payable on housing, maturing within one year	1,993	127
REDUCTIONS IN WORKING CAPITAL	8,859	12,907
NET INCREASE (DECREASE) IN WORKING CAPITAL	8,854	(14,802)
WORKING CAPITAL DEFICIENCY —Beginning of year	(24,129)	(14,126)
WORKING CAPITAL DEFICIENCY —End of period	$(15,275)	$(28,928)

**Reclassified to conform with 1976 presentation*

The above figures are unaudited

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GREAT CANADIAN OIL SANDS LIMITED
CONSOLIDATED INTERIM REPORT

STATEMENT OF PERFORMANCE AND DEFICIT

Six Months ended June 30

	1977	1976*
	(Thousands of Dollars)	
REVENUES		
Sales and other operating	$ 76,991	$ 75,348
Interest	849	759
	77,840	76,107
EXPENSES		
Overburden removal	5,481	6,766
Plant operations	41,728	34,881
Depreciation	4,582	4,785
Amortization of deferred preproduction costs	869	1,008
Crown royalty	8,938	9,115
Lease royalty	2,965	3,255
Administrative and general	5,489	4,485
Interest	2,615	3,710
Income tax provision	3,044	3,720
	75,711	71,725
PROFIT BEFORE EXTRAORDINARY ITEM	2,129	4,382
EXTRAORDINARY ITEM — reduction of income tax provision due to prior years' losses	315	2,545
NET PROFIT FOR THE PERIOD	2,444	6,927
DEFICIT — January 1	(67,239)	(79,201)
DEFICIT — June 30	$(64,795)	$(72,274)

STATEMENT OF CHANGES IN FINANCIAL POSITION

Six Months ended June 30

	1977	1976*
	(Thousands of Dollars)	
SOURCE OF WORKING CAPITAL		
Profit before extraordinary item	$ 2,129	$ 4,382
Add back (deduct) items not affecting working capital		
Extraordinary item	315	2,545
Depreciation	4,582	4,785
Amortization of deferred preproduction costs	869	1,008
Deferred overburden removal costs	(1,720)	(1,272)
(Gain) loss on disposals of plant, equipment and housing	(292)	137
Deferred income taxes	2,729	1,175
	8,612	12,760
Disposals of plant, equipment and housing	2,079	2,801
New mortgages payable on housing	80	952
ADDITIONS TO WORKING CAPITAL	10,771	16,513
USE OF WORKING CAPITAL		
Purchases of properties, plant and equipment	9,200	3,361
Housing	1,605	2,305
Notes and mortgages payable maturing within one year	269	1,993
REDUCTIONS IN WORKING CAPITAL	11,074	7,659
NET INCREASE (DECREASE) IN WORKING CAPITAL	(303)	8,854
WORKING CAPITAL DEFICIENCY — Beginning of year	(11,091)	(24,129)
WORKING CAPITAL DEFICIENCY — End of period	$(11,394)	$(15,275)

The above figures are unaudited.

**1976 figures are restated to reflect the accounting policy changes made in the fourth quarter of 1976.*

Great Canadian Oil Sands Limited

Great Canadian Oil Sands Limited

Mid-year Report to Shareholders

Financial results for the second quarter of 1977 show a loss of $3,841,000 for your company, including an extraordinary charge of $418,000. The loss partially offsets the $6,285,000 profit earned in the first quarter which included an extraordinary gain of $733,000. It also increases the company's deficit since inception of operations to almost $65,000,000.

The loss for the quarter results partly from lower production caused by a scheduled biennial maintenance shutdown which took place during April and May. In addition, a somewhat slow startup resulted in increased expenses and further reduced the quarter's production of synthetic crude oil to an average of 32,400 barrels per day.

Because of higher crude oil prices, revenues for the first six months of 1977 totalled $77,840,000, up slightly from the $76,107,000 recorded during the first half of 1976. Profit for the six months was $2,444,000 which included an extraordinary gain of $315,000. In the same 1976 period, profit was $6,927,000, including an extraorindary gain of $2,545,000, as restated to reflect accounting policy changes implemented last year. The extraordinary gains resulted from reduction of the income tax provision due to prior years' losses.

Synthetic crude oil production for the six-month period declined to 7,491,000 barrels, or a daily average of 41,400 barrels. This represents a drop of 14 per cent from the comparable 1976 period when production totalled 8,703,000 barrels.

August, 1977

Report of the directors

W. Harold Rea,
Chairman of the Board of Directors

Kenneth F. Heddon, *President*

Financial

In 1976, your company recorded a profit of $12 million, a heartening improvement over the $1 million loss suffered in 1975. Included in the 1976 profit is an extraordinary gain of $3 million compared to an extraordinary gain in 1975 of $2.6 million. The extraordinary gains in both periods resulted from a reduction of the income tax provision due to prior years' losses. Revenues in 1976 totalled $160 million, an increase of $35 million over 1975.

As a result of your company's improved financial performance in 1976, sufficient cash was generated to reduce short-term borrowings from nearly $40 million to $20 million over the course of the year. Capital spending of $15 million included, in addition to the new bucketwheel excavator, expenditures for conveyor extensions, plant improvements and employee housing.

Several factors influenced 1976 performance. Among these were higher and more consistent levels of production resulting in a 12 per cent volume increase in sales of synthetic crude oil. As well, the company benefited from higher crude prices instituted by government on July 1. On the other hand, higher operating and maintenance costs, partially fuelled by inflation, helped push expenses above 1975 levels. However, the easing of inflationary pressures aided in reducing the rate of growth of expenses in 1976 compared to the year earlier.

Some of the increase in expenses during 1976 resulted from changes in the accounting policies governing overburden removal costs and capitalization of fixed assets. The changes, which are further described in Note 2 to the financial statements, resulted from a comprehensive review of all accounting policies by the company and its auditors. The changes were made in the fourth quarter and were retroactively applied from January 1, 1976.

The revised policy on the expensing of overburden removal lessens the annual expense swings caused by variations in overburden depth over the lease. Although the amount of oil sands mined is relatively constant from year to year, the amount of overburden removed annually can fluctuate widely. Compared to the former policy, this change increased overburden removal expenses for the year by some $1.5 million but it is projected to decrease such expenses in 1977.

Concerning fixed asset capitalization, it was becoming increasingly apparent that the on-going capital needs of the venture were greater than originally anticipated. At the end of 1967, shortly after completion of construction, the capital investment in properties, plant and equipment, and housing totalled about $183 million. To the end of 1976 an additional $132 million, some 72 per cent of the original investment, had been spent on capital projects, an amount far in excess of original projections. This has been largely due to the pioneering nature of the venture and the impact of severe inflation. It is anticipated that high levels of capital spending will continue for some time into the future and these heavy expenditures will be made while reserves of oil sands are steadily being depleted. In the light of these circumstances, it was deemed prudent to amend the policy so that greater amounts are charged to current operations rather than accumulating them to be charged as depreciation in the future. Compared with the former policy, the change increased 1976 expenses by some $2.4 million.

As well, experience to date has indicated that some equipment is being replaced earlier than anticipated. Therefore, a more conservative approach to the calculation of depreciation is being applied to assets purchased after January 1, 1976. While the effect in 1976 was minimal, the revised approach will lead to higher charges during the next decade.

Operations

Operations in 1976 resulted in synthetic crude production of 17.5 million barrels, an average of 47,800 barrels per day. This compares to an output of 15.5 million barrels in 1975 when production averaged 42,600 barrels per day. The past year saw production rise to its highest level since 1973.

The gain in output would have been greater except for mechanical difficulties and the occurrence of pockets of lean sand in the mine during the first quarter and outages of the power and steam facilities and the sulphur plant during the last quarter. Overall, however, operations in 1976 saw less equipment down-time. This was particularly true in overburden

removal where the time that equipment was available increased dramatically over 1975 and resulted in the highest eight-month average of overburden removed ever achieved by the GCOS workforce and equipment. The improvement eliminated the need to hire outside contractors to supplement company efforts. More stable operations also characterized the extraction plant and, on a number of days, levels of bitumen production were well above average.

Fabrication of the third large bucketwheel was completed late in 1976, and following testing, operation commenced in December. Since then, a number of technical problems has arisen which temporarily kept the new wheel from reaching full production on a consistent basis. These are gradually being solved. Though approximately the same size as the company's two original mining machines it has a greater capacity. Its primary function will be overburden removal but it also has the flexibility to mine oil sand.

Several organizational moves were made in 1976. Among them were the broadening and realignment of two separate departments to satisfy the plant's requirements for a broad spectrum of engineering services. These were the Technical Services Department and the Engineering Department. Technical Services personnel, located at the plant, provide day-to-day support to the five operating departments: overburden, mine, extraction, process and utilities. The Engineering Department was moved from Fort McMurray to Edmonton, and as well as responsibility for modifications and changes to plant facilities, it was given responsibility for medium and long-term engineering planning. In addition, a Central Maintenance staff function was created to provide a range of services geared towards improving plant stability and reducing maintenance costs and to take responsibility for co-ordinating maintenance methods, planning and control for the total plant.

On July 30, the company concluded negotiations with the McMurray Independent Oil Workers which represents operating employees, and signed a new, two-year collective agreement which, early this year, received Anti-Inflation Board approval. The agreement permits wage rates to be re-negotiated in 1977.

Emphasis on human resource development was stepped up in 1976 and this, coupled with the organizational moves described above, helped contribute to improved employee goal orientation and a greater sense of accomplishment. However, as we discussed in the 1975 Annual Report, demand for skilled tradespeople and engineering talent in Alberta is high, and this has affected the plant turnover rate. We hope the reorganization and the greater emphasis on human resource development will contribute to the retention of high-potential employees and ease some of the difficulties experienced in attracting new, qualified people.

As reported previously, the company has a native training and employment program. Under the program in 1976, two courses were offered to 28 trainees which resulted in 20 of the graduates being employed as of December, bringing the total number of natives working at the plant to 140.

The Future

The major goal for 1977 is to exceed the 1976 production of synthetic crude and simultaneously maintain a firm hand on expenses. A major factor constraining increased production, however, will be a three-week maintenance shutdown planned for the spring. This shutdown is taken every two years to completely overhaul plant equipment and put it in top working order.

Your company will benefit from a 70-cent-per-barrel increase in the price of crude oil which received government sanction at mid-1976. The increase went into effect on January 1, 1977 and raises the average price per barrel received by the company to about $10.

Capital spending in 1977 is projected to be some $25 million. These funds will be used for such projects as adding mobile mine equipment; improvement of the heating, ventilating and general work environment in the extraction plant; improvements to the process area; and employee housing.

An important addition to the process area which will get underway is a $7.1 million backup system to the sulphur plant. From time-to-time, difficulties with the present plant have required cutbacks in synthetic crude production because of environmental considerations. In the event the present sulphur plant breaks down, the backup system will enable the plant to produce at full capacity and still meet the environmental standards demanded of it. Completion is scheduled for 1978.

Late in 1976, the Province of Alberta charged GCOS with seven violations of the Clean Air and Fisheries Act (Canada). The company entered a plea of "not guilty" and the trial is scheduled to begin February 21 in the provincial court of Alberta.

The question of environmental standards raises some serious issues for your company. The plant was designed to more than satisfy the air and water standards established by the Alberta Government at the time of construction in the mid-sixties. Since completion and start-up, the Alberta regulations have become increasingly stringent and are now the most rigorous in Canada. In 1973, when five oil sands plants were envisaged, the Alberta Government began to consider even tighter regulations. The construction of five plants now seems unlikely in the foreseeable future but should the proposed changes be made in any event, they could impinge on the viability of the GCOS operation. Just to meet the proposed sulphur regulations, the additional capital costs are estimated to be upwards of $60 million with added annual operating costs in excess of $6 million.

Your company will continue to co-operate with the Alberta authorities in developing and implementing practicable environmental protection measures. But the cost of each measure must be realistically assessed against the benefits.

Oil sands development appears to be receiving renewed attention from both Federal and Provincial governments. The renewed attention springs from a growing recognition

that accelerated oil sand and heavy oil development provide the most advantageous means of meeting at least a portion of the country's growing energy demands. In last year's annual report, your company called for development of the oil sands. It noted that whatever hope Canada may have of lessening its dependence on foreign crude lies mainly in such development and in the discovery and development of new Frontier sources. Realizing that major problems must be solved if such a goal is to be achieved, your company is doing everything it can to assist the Alberta and Federal governments in their deliberations to establish a practical set of policies which will encourage development of the oil sands as a major source of hydrocarbons.

In this regard we believe that Canada's National Oil Policy should include a commitment to expedite construction of at least one additional open-pit oil sands plant. This commitment should be made immediately to phase-in with the completion of the Syncrude plant and use the existing and experienced on-site force along with associated facilities and equipment.

There are compelling reasons for moving quickly on a third open-pit development. Each new plant, depending on its size, could supply from four to seven per cent of the country's projected crude requirements and reduce Canada's dependence on imported oil. Exploration is unnecessary as the oil sands reserves have been well established. The capital and operating costs are relatively well known. The technology is proven and capable of recovering more than 80 per cent of the reserves in place compared to about 30 per cent which tests indicate can be recovered by in-situ methods. Moreover, the reserves produced can be processed into a high-quality hydrocarbon. Finally, no dramatic technological break-through is foreseen that would render new and existing plants obsolete.

However, in your company's view, a third plant will not be built until governments agree upon and implement realistic policies on such major issues as pricing, royalties, taxation and environmental requirements.

For example, a mechanism is required that provides a market for production at prices which will

Special Report

GCOS and Environmental Protection

During 1976, your company spent some $10 million in capital and operating funds as it continued its efforts to protect the environment in which its facilities operate. A number of projects commenced in previous years were completed and several new projects were begun. Plans for 1977 call for spending of $19 million of which $7.4 million will be spent on capital projects directly or indirectly related to the environment.

Of special interest to the shareholders and the public are the following:

1. The major thrust for the coming year will be the addition to the sulphur unit. Construction is scheduled to begin in late spring with completion in 1978. (See Report to Shareholders)

2. In 1976, the company published the results of a study, commissioned in 1975 to establish the effect of sulphur dioxide emissions on soils and vegetation within a seven-mile radius of the plantsite. Although the plant had been in operation eight years when the study was undertaken by Intera Environmental Consultants Ltd., the study concluded that no deterioration to vegetation and soils had occurred due to sulphur dioxide. Damage to the forest environment noted by the consultants was due to natural causes including a high water table, forest fires and tree diseases. The company is continuing to monitor the effect of its sulphur dioxide emissions. Studies of this kind are one way in which the company determines the future extent and kinds of equipment needed at the plant to protect the environment.

3. Last year was the sixth year of a land reclamation program on the company's lease. The program, being undertaken in co-operation with government, is experimental and involves the planting of grasses, legumes and trees on the tailings dyke and overburden waste areas. To date, just under 250 acres have been involved in site preparation and revegetation. In 1976, grasses and legumes were planted on 35 acres and 50,000 new seedlings were sown. Helicopters are used to spread the fertilizer needed in the program. Plans call for 10,000 more trees to be planted in 1977. Over the short term, this work will provide lessons in controlling erosion of the tailings dyke. Over the long-term, the goal is the establishment of a self-sustaining environment favourable to man and wildlife.

4. Late in the year, the company spent $600,000 on a system to collect and recycle drainage water from the tailings dyke. It was installed at the behest of the provincial government following the recommendation of a Provincial Scientific Review Committee, established to specifically study the dyke drainage system.

The Committee had been established following allegations that unprocessed waste water was being "dumped" into the Athabasca River. The waste water in question does not originate within the pond but is a mixture of water used in the construction of the dyke, and rain or snow which percolate downward in the dyke wall. This drainage is controlled through filtering into 80 pipes set at various locations around the 2.5 mile perimeter of the dyke. The system of filters and drains was specifically constructed to relieve the water pressure inside the dyke wall and ensure the wall's stability. Their presence is a condition of dyke construction and, as such, prior to installation of the recycling system, the drainage water was a controlled emission and not "dumped". The Committee noted in its report that there was no evidence of acute toxic effects on life in the Athabasca River.

5. Not as visible but of long-term importance to the company and the environment was the continuation of certain engineering studies and applied research. These projects have as their goals the reduction of fly ash from the power plant stack, improved tailings disposal methods, and the recovery of bitumen from the tailings pond.

guarantee a minimum adequate rate of return on invested capital. Such a mechanism would have to include a floor price to guard against the possibilities of a decline in world prices.

Royalties and taxes would flow to governments only from a progressive participation in profits which are in excess of the minimum rate of return. The prospects of incremental profits would be an incentive for developers to seek added efficiencies in the operation.

Environmental regulations must be based on needs that are both realistic and demonstrable. Within the regulations, recognition must be given to the necessity of a trade-off between the desire to protect the environment and the cost of such protection to the consumer.

Finally, it is likely that private investors will find it difficult to assemble the capital necessary to build new plants. In this event, Federal and Provincial governments should be prepared to assist in, or participate in, the financing of the project.

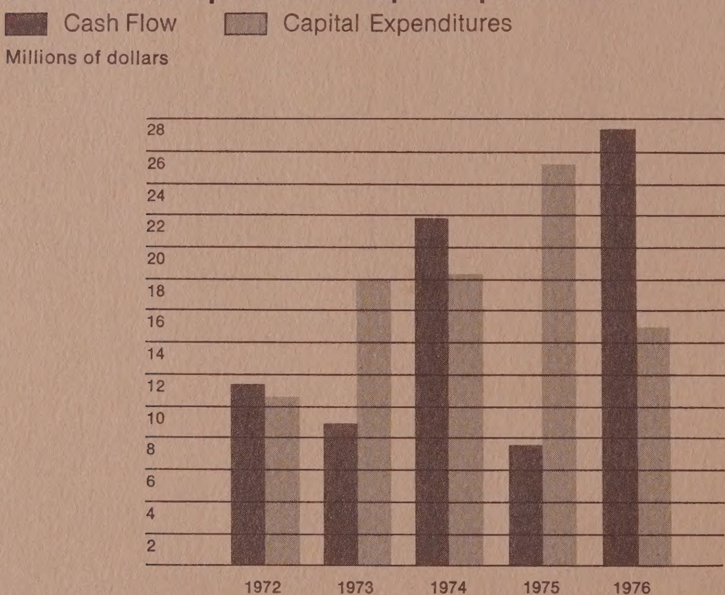
To conclude this Report to the Shareholders, we would like to extend our thanks and gratitude to the company's employees. Their efforts and dedication have played a key role in the company's performance improvement for 1976.

W. Harold Rea, *Chairman of the Board*

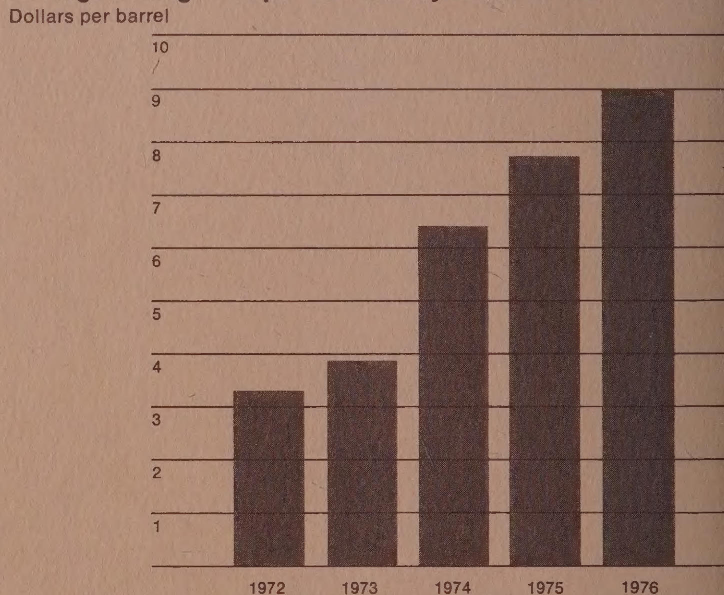
K. F. Heddon, *President*

February 7, 1977

Cash Flow from Operations vs. Capital Expenditures



Average Selling Price per Barrel of Synthetic Crude

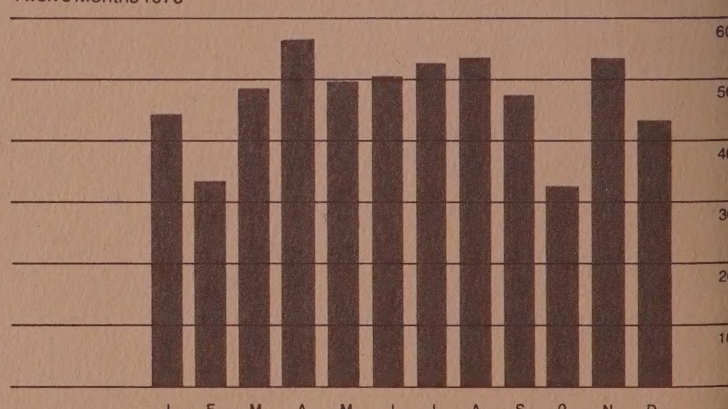


Synthetic Crude Production

Thousands of barrels per day

Five Years 1972-1976

Twelve Months 1976



Great Canadian Oils Sands Limited

and Subsidiaries

Statement of Performance for the year ended December 31

	1976	1975
	(Thousands of dollars)	
Revenues		
Sales and other operating	$158,288	$122,899
Interest	1,539	1,535
	159,827	124,434
Expenses		
Overburden removal (notes 2 and 4)	14,014	9,102
Plant operations (note 2)	73,241	69,225
Depreciation (note 4)	10,817	8,828
Amortization of deferred preproduction costs	2,024	1,862
Crown royalty	19,464	14,785
Lease royalty (notes 10 and 12)	6,758	5,472
Administrative and general	9,388	9,386
Interest (note 5)	6,929	6,765
Income tax provision (note 6)	8,180	2,650
	150,815	128,075
Profit (loss) before extraordinary item	9,012	(3,641)
Extraordinary item (note 6)	2,950	2,650
Net profit (loss)	$ 11,962	$ (991)

See accompanying notes

Auditors' Report

To the Shareholders of
Great Canadian Oil Sands Limited

We have examined the consolidated statement of financial position of Great Canadian Oil Sands Limited and subsidiaries as at December 31, 1976 and the consolidated statements of performance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles which, except for the changes described in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants
Edmonton, Canada
January 21, 1977

Great Canadian Oil Sands Limited

and Subsidiaries

Statement of Financial Position as at December 31

	1976	1975
	(Thousands of dollars)	
Cash and Items Convertible to Cash within one year		
Cash	$ 92	$ 43
Amounts due from: customers	7,185	8,750
affiliated companies	3,750	4,339
others	3,178	1,726
Inventories: finished product	3,395	3,455
materials and supplies	13,316	12,992
Prepaid charges	1,944	3,987
	32,860	35,292
Deduct: Liabilities payable within one year		
Short-term borrowings	20,433	39,660
Amounts due to: suppliers	15,606	8,731
affiliated companies	264	84
others	4,546	4,684
Taxes other than income taxes	551	3,814
Current portion of long-term borrowings	2,551	2,448
	43,951	59,421
Working Capital Deficiency	(11,091)	(24,129)
Add: Other assets		
Properties, plant and equipment (note 7)	187,578	188,810
Housing (note 7)	34,052	33,927
Expenses for the benefit of future years:		
Deferred preproduction costs	52,046	54,070
Deferred overburden removal costs (note 4)	25,348	20,712
	299,024	297,519
Working Capital and other assets	287,933	273,390
Deduct: Liabilities payable beyond one year		
Notes (note 8)	38,714	40,864
Mortgages on housing (note 8)	19,996	20,495
Deferred income taxes	5,230	—
	63,940	61,359
Shareholders' Equity	$ 223,993	$ 212,031
Shareholders' equity consists of:		
Paid-in capital (note 9)		
Preferred shares	$ 165,000	$ 165,000
Common shares	126,232	126,232
	291,232	291,232
Deficit		
Beginning of year	(79,201)	(78,210)
Net profit (loss) for the year	11,962	(991)
End of year	(67,239)	(79,201)
	$ 223,993	$ 212,031

See accompanying notes

On behalf of the board
W. H. Rea, Director
D. M. McGeer, Director

Statement of Changes in Financial Position for the year ended December 31

	1976	1975
	(Thousands of Dollars)	
Source of Working Capital		
Profit (loss) before extraordinary item	$ 9,012	$ (3,641)
Add back (deduct) items not affecting working capital:		
Extraordinary item (note 6)	2,950	2,650
Depreciation (note 4)	10,817	8,828
Amortization of deferred preproduction costs	2,024	1,862
Deferred overburden removal costs (note 4)	(3,076)	(2,427)
Loss on disposals of plant, equipment and housing	233	452
Deferred income taxes	5,230	—
	27,190	7,724
Disposals of plant, equipment and housing	3,621	3,261
Issue of common shares	—	2
New mortgages payable on housing	2,204	7,212
Additions to Working Capital	33,015	18,199
Use of Working Capital		
Purchases of properties, plant and equipment	10,895	17,283
Housing	4,229	8,173
Notes and mortgages payable maturing within one year	4,853	2,746
Reductions in Working Capital	19,977	28,202
Net Increase (Decrease) in Working Capital	13,038	(10,003)
Working Capital Deficiency — beginning of year	(24,129)	(14,126)
Working Capital Deficiency — end of year	$(11,091)	$(24,129)
Analysis of the Change in Working Capital		
Cash	$ 49	$ (384)
Amounts due from customers, affiliated companies and others	(702)	4,860
Inventories	264	2,869
Prepaid charges	(2,043)	1,661
Short-term borrowings	19,227	(30,310)
Amounts due to suppliers, affiliated companies and others	(6,917)	2,386
Taxes other than income taxes	3,263	(3,642)
Current portion of long-term borrowings	(103)	12,557
Net Increase (Decrease) in Working Capital	$ 13,038	$(10,003)

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1976

1. Summary of significant accounting policies

(a) Consolidation —
The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

(b) Inventories —
Inventories are valued at the lower of average cost and estimated net realizable value.

(c) Depreciation and amortization —
Properties, plant and equipment capitalized after January 1, 1976 are depreciated over the lesser of their useful lives or the life of estimated reserves, except that the cost of equipment relating to the mining operation is, with specific exceptions, expensed as incurred. All production facilities capitalized prior to January 1, 1976 are depreciated on the basis of estimated reserves.
Rental housing, mobile equipment and furniture and fixtures are depreciated over their estimated useful lives.
Deferred preproduction costs are amortized on the basis of estimated reserves.
Overburden removal costs are amortized on the basis of the ratio of total overburden to oil sands reserves. Deferred overburden removal costs will increase or decrease when the ratio of overburden removed to oil sands mined, in the current year, exceeds or is less than the forecast average ratio.

(d) Maintenance, repairs and shutdown expenses —
Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period between each shutdown.

(e) Income tax provision —
Some costs and revenues may by law be deducted or added in calculating taxable income in years later or earlier than actually recorded in the financial statements. The income tax provision is based upon the revenues and expenses actually recorded, but differs from taxes actually paid or payable, if any. In the long run these differences between taxes actually payable and amounts expensed in respect of taxes would tend to disappear, but year by year there are imbalances, shown in the statement of financial position as deferred income taxes.

2. Changes in accounting policy
Effective January 1, 1976, accounting policies were changed as follows:

(a) Properties, plant and equipment —
Only those mining development costs which significantly benefit mining operations of future years and major outlays on plant and equipment are capitalized. There have been no changes in the policy as to the capitalization of mobile equipment and housing units. The effect of expensing those items that previously would have been capitalized is an additional charge to plant operations of $2,400,000 and a reduction in net profit for the year of $1,900,000.

(b) Overburden removal —
Past policy has been to charge to earnings costs directly related to the area actually mined. The change to the policy as described in Note 1 results in an increase in overburden removal expense of $1,500,000 and a decrease in net profit for the year of $1,200,000.

3. Estimated reserves
For the purposes of determining the amounts of certain depreciation and amortization in the accounts, the remaining reserves of synthetic crude oil at December 31, 1976 have been estimated at approximately 454,000,000 barrels. The actual quantity capable of economic recovery will depend in part upon the future relationship between synthetic crude selling prices and costs.

4. Deferred overburden removal costs

	1976	1975
Outlays during the year	$17,090,000	$11,529,000
Overburden removal expensed	(14,014,000)	(9,102,000)
	3,076,000	2,427,000
Depreciation on equipment for the year	1,560,000	1,471,000
Balance — beginning of year	20,712,000	16,814,000
Balance — end of year	$25,348,000	$20,712,000

The above depreciation on overburden removal equipment is not included in depreciation expense of $10,817,000 (1975 — $8,828,000).

5. Interest expense

	1976	1975
Short-term borrowings	$2,809,000	$2,488,000
Notes and mortgages	4,120,000	4,277,000
	$6,929,000	$6,765,000

6. Extraordinary item
The extraordinary item represents the reduction of income taxes resulting from:
(a) the application of $6,000,000 in prior years' expenses not previously claimed for tax purposes. As of December 31, 1976 there are no further such expenses to be carried forward.
(b) the application of $700,000 in Alberta income tax rebates brought forward from prior years. Such rebates may be credited only against Alberta income taxes otherwise payable. As of December 31, 1976 unapplied rebates carried forward amount to approximately $2,000,000.

7. Properties, plant and equipment, and housing

(a) Properties, plant and equipment — These are at cost less accumulated depreciation of $63,101,000 in 1976 and $51,648,000 in 1975.

	1976	1975
(b) Housing —		
Lots, rental housing and housing under construction, at cost, less accumulated depreciation of $1,321,000 in 1976 and $843,000 in 1975	$19,470,000	$18,358,000
Agreements for sale receivable, at the lower of cost or selling price of houses sold, less principal payments received to date and less principal due within one year	14,582,000	15,569,000
	$34,052,000	$33,927,000

8. Liabilities payable beyond one year

(a) Notes —
These are 5¾% notes in U.S. currency maturing July 1, 1991 repayable $2,000,000 annually. The principal amount outstanding at December 31, 1976 is U.S. $36,000,000. Translation into Canadian currency is on the basis of the exchange rate at the date of issue.

(b) Mortgages on housing —
These mortgages are repayable over terms up to 30 years and bear interest at rates ranging from 6¼% to 11½%. The estimated principal repayments required on the non-current portion of mortgages payable at December 31, 1976 are as follows:

1978	$ 573,000
1979	632,000
1980	697,000
1981	769,000
Subsequent	17,325,000
Total	$19,996,000

9. Paid-in capital

There have been no changes in paid-in capital during the year. The common shares are without nominal or par value and the issued preferred shares are 7% non-cumulative redeemable (at par) voting shares having a par value of $100 each.

	Authorized Shares	Issued Shares
Preferred:		
First	500,000	500,000
Second	500,000	500,000
Third	450,000	450,000
Fourth	550,000	200,000
Total	2,000,000	1,650,000
Common	35,000,000	28,504,259

All of the preferred shares and 96.1% of the common shares are owned by Sun Company, Inc.

10. Commitments and contingent liabilities

(a) The company is a party to an agreement with Sun Oil Company Limited and CIGOL International Ltd. involving the sublease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966, renewable for further terms each of 21 years subject to such terms and conditions as may be prescribed. The company is obligated under the provisions of the agreement to pay Sun and CIGOL a basic royalty of 10 cents per barrel of bitumen extracted or recovered from bituminous sands from the leased land together with an additional royalty of 25% of synthetic crude revenues in excess of $2.75 per barrel (declining to $2.60 in the future under certain conditions) and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. Such royalties are payable 75% to Sun and 25% to CIGOL (see note 12 re waiver by Sun).
Also, under this agreement the company has assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca oil sands area. Principal payments on this debt have been deferred on an interest-free basis until 1978. As the company hopes to obtain relief from this debt, it has not been recorded in the accounts of the company.

(b) Under the provisions of the sale agreements covering the sale of housing units to employees the company has undertaken, in the event of an employee termination within up to twelve years of the date of the sale agreement, to repurchase the employee's housing unit. The potential net outlay under such repurchase commitments is the principal amount paid by the employee to the date of termination plus a portion of any increase in replacement costs between the effective dates of sale and repurchase. The aggregate of such principal amounts paid by employees to December 31, 1976 approximates $1,956,000 but any additional potential outlay resulting from increases in replacement costs cannot be determined until an employee actually teminates employment.

(c) The company is a party to long-term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

(d) The company's unfunded past service pension liability at December 31, 1976 is estimated at approximately $1,450,000. This amount will be funded and charged to income over the next thirteen years.

(e) Commitments for capital expenditures at December 31, 1976 totalled approximately $10,000,000.

11. Directors and officers

Twelve persons were directors of the company during 1976, only certain of whom were paid as such, and their remuneration aggregated $9,200. Ten persons were officers during 1976, only certain of whom were paid as such; remuneration of officers aggregated $306,500. Five officers were also directors.

12. Lease royalty waiver

Sun Oil Company Limited has waived, effective April 1, 1970, the royalties to which it is entitled under the agreement described in note 10(a) until the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. The reduction in costs due to this temporary relief is $16,635,000 in 1976 (1975 — $16,416,000).

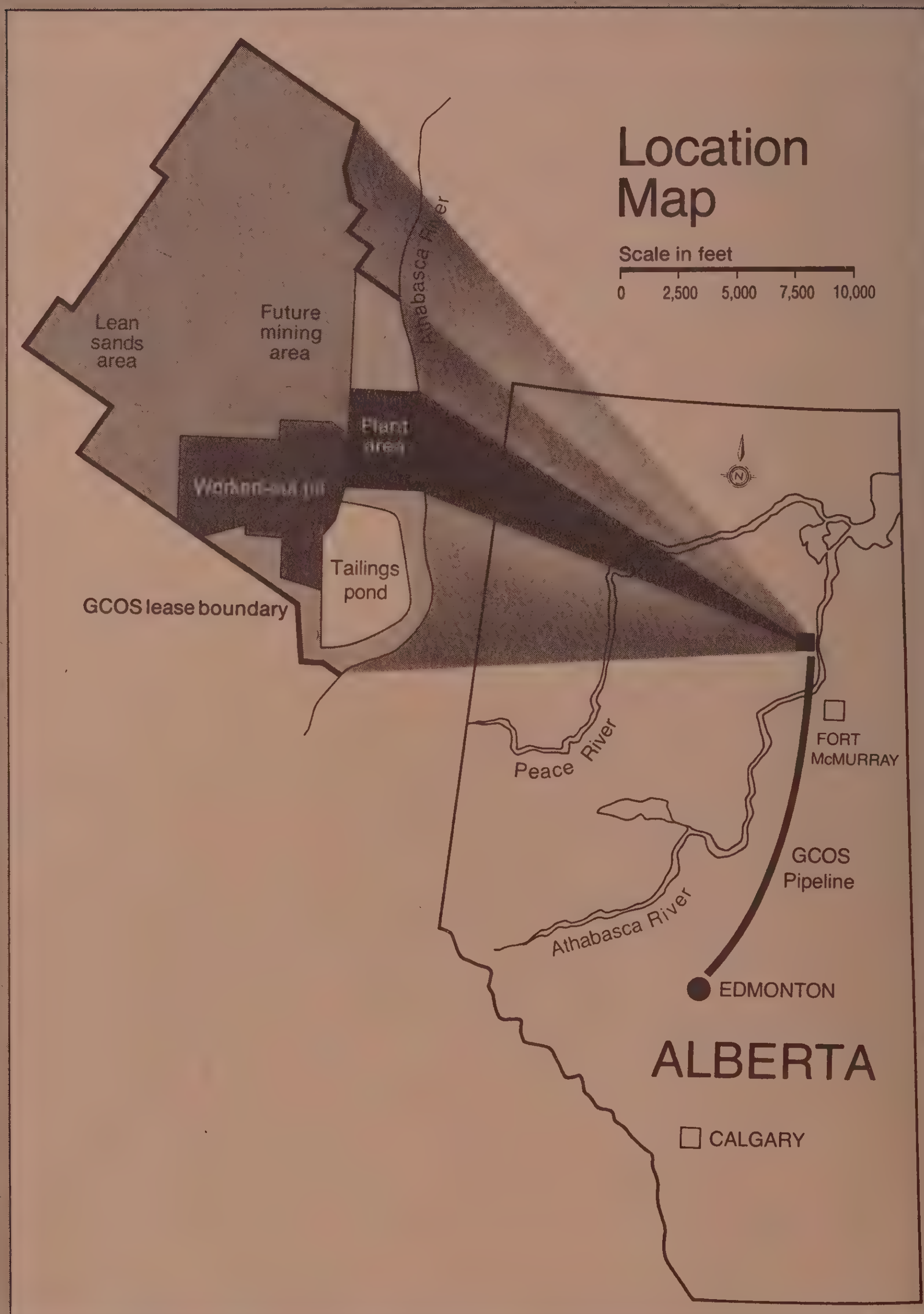
Continued next page

13. Preferred share dividends and earnings per share
No dividends have been declared or paid to date on the $165,000,000 of 7% non-cumulative preferred shares. Were a deduction made for a full annual dividend of $11,550,000 on the outstanding preferred shares the earnings per common share would be as follows:

	1976	1975
Profit (loss) per share before extraordinary item	$(0.09)	$(0.53)
Net profit (loss) per share	$ 0.01	$(0.44)

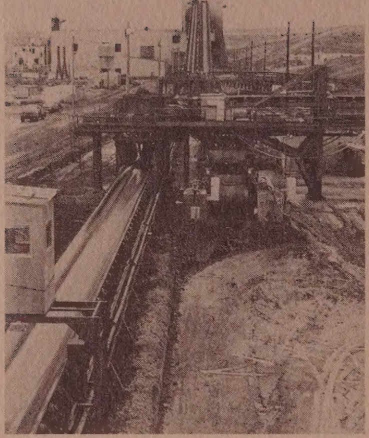
"Basic earnings" per common share, which are computed without deduction for preferred share dividends (since none have been declared), are as follows:
Profit (loss) per share before extraordinary item: 1976 — $0.32; 1975 — $(0.13).
Net profit (loss) per share: 1976 — $0.42; 1975 — $(0.03).

14. Comparative figures
The 1975 comparative figures were reported on by other auditors.

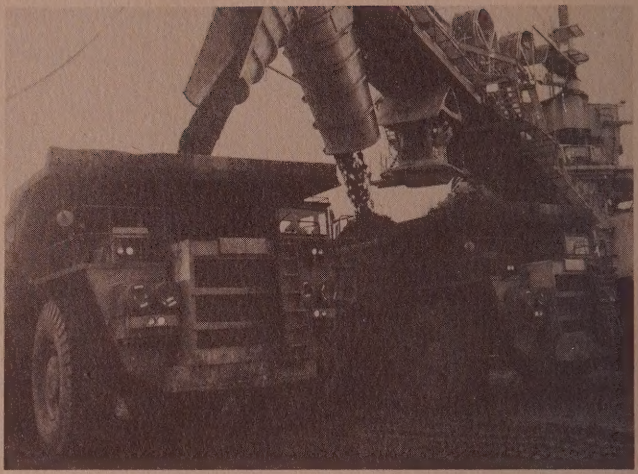


Financial and Operating Summary

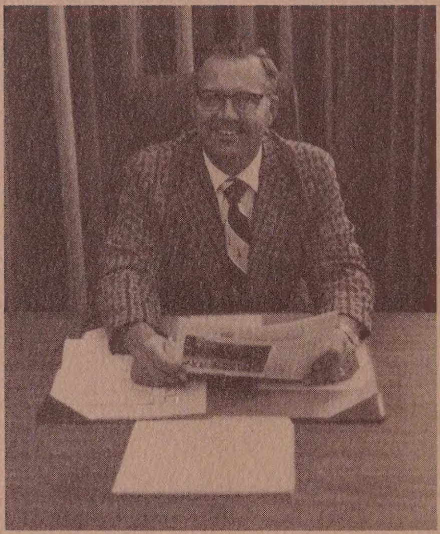
	1976	1975	1974	1973	1972
	(Dollars in thousands)				
Financial					
Revenues	**$159,827**	$124,434	$108,128	$73,231	$63,330
Expenses	**150,815**	128,075	100,977	75,548	64,010
Profit (loss) before extraordinary item	**9,012**	(3,641)	7,151	(2,317)	(680)
Extraordinary item	**2,950**	2,650	4,882	—	—
Net profit (loss) for the year	**11,962**	(991)	12,033	(2,317)	(680)
Items not affecting working capital	**15,228**	8,715	10,005	11,463	12,391
Cash flow from operations	**27,190**	7,724	22,038	9,146	11,711
Shareholders' equity:					
Paid-in capital	**291,232**	291,232	291,230	291,229	291,199
Deficit	**(67,239)**	(79,201)	(78,210)	(90,243)	(87,926)
Capital expenditures	**15,124**	25,456	18,531	18,069	10,717
Operating					
Overburden removed (thousands of cubic yards)	**12,051**	10,071	9,973	10,064	13,064
Oil sands mined (thousands of short tons)	**36,068**	32,712	34,522	36,066	39,223
Synthetic crude sold (thousands of barrels)	**17,510**	15,651	16,473	18,382	18,377
Sulphur produced (thousands of long tons)	**97**	74	86	95	86



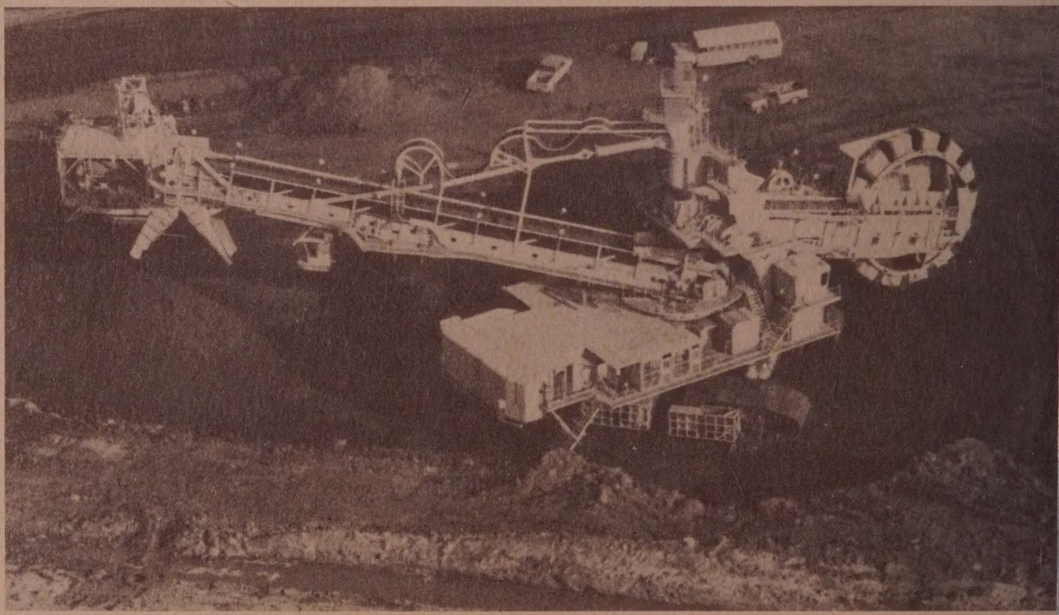
Intricate system of conveyors carries mined oil sand to bitumen extraction plant in background.



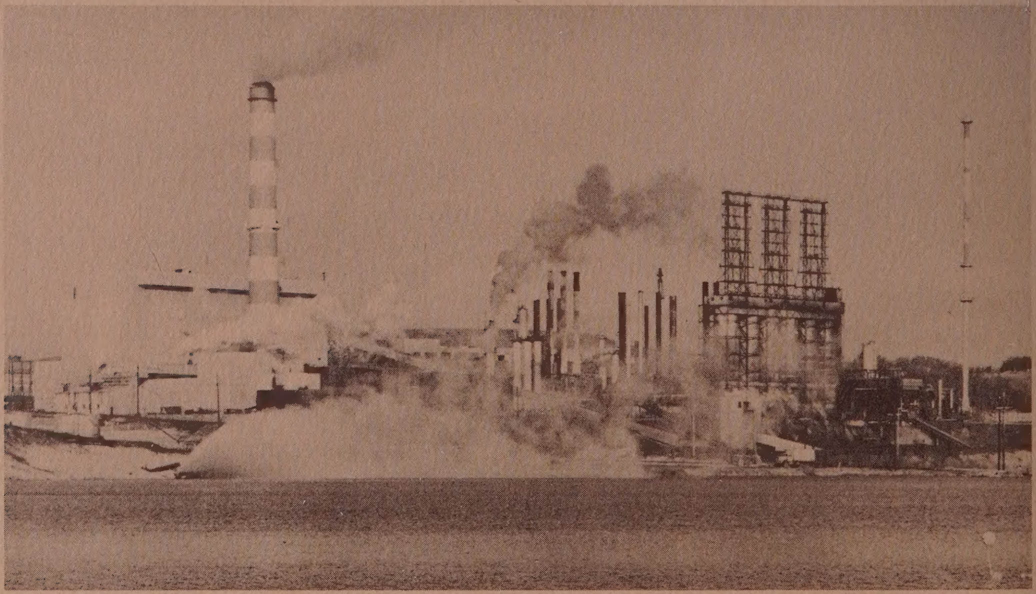
Discharge boom of new bucketwheel is equipped with a switchable chute to facilitate continuous loading of overburden into 150-ton trucks.



Joseph S. Camp was appointed Director of Plant Operations in 1976. With broad experience in the Sun organization, he previously worked at GCOS during 1970 and 1971 as Process Superintendent.



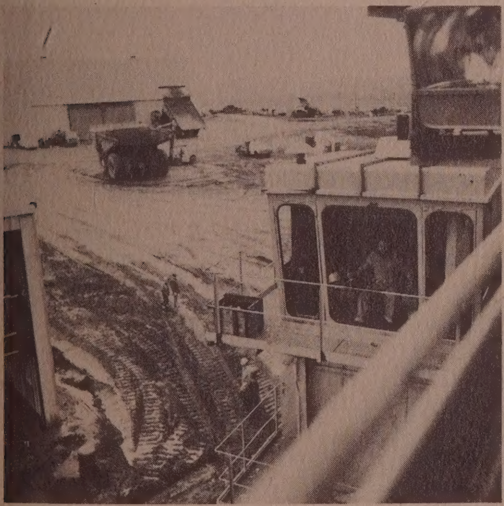
New bucketwheel excavator will be used primarily for overburden removal but it also has the flexibility to mine oil sands if needed. Cost exceeded $10 million.



Process area converts unsaleable bitumen to synthetic crude. Power plant is shown on the left with coking unit on right.

Sterling Shane operates a scraper during supplementary oil sand mining operations. Scrapers mine areas not readily accessible to main bucketwheels.

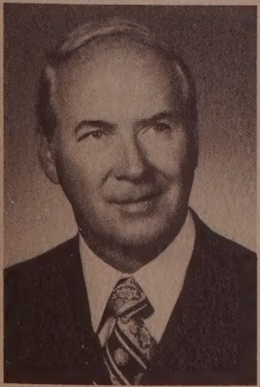
Ken Cobb, computer operator, scans readout of information at computer installation in Edmonton.



View of operator's cab on new bucketwheel excavator as the excavator was "walked" to mining area.

GCOS Fire Chief Bill Butler (left) and Alberta Forest Service ranger, return from inspection of lease.

Monitoring control panel in Extraction's Plant 3 is Pat Kelly, area senior operator.



Alex E. Barron, one of the driving forces behind Great Canadian Oil Sands, retired from the company's Board of Directors in 1976.

As one of the founders of Canada's first commercial oil sands venture, Mr. Barron stands as a leader in the development of the nation's non-conventional hydrocarbon resources. An investment executive with Fry and Company when GCOS was incorporated in 1953, he played a key role in subsequent years in guiding the project toward realization and was instrumental in interesting Sun Oil and the late J. Howard Pew, then Sun's Board Chairman, in the venture.

"I look back with bittersweet fondness over the years we struggled to keep GCOS alive," Mr. Barron commented. "All of us realized that it was a high risk venture, and on many occasions it was touch and go as to whether or not we'd produce that first barrel of oil. It wasn't until we talked to Sun and Mr. Pew that we began to see a glimmer of light at the end of the tunnel. They foresaw the coming energy crunch and wanted to be ready for it. Their participation pushed GCOS over the top, and while it's been a long, tough road for everyone concerned, I'm convinced their foresight has been vindicated."

Mr. Barron continues active as president of Canadian General Investments Limited and chairman and a director of Canadian Tire Corporation Limited which are but two of his many and varied business interests.

Great Canadian Oil Sands Limited, its directors and officers extend their thanks to Alex Barron for his many years of interest in the company, and his invaluable contributions to its development and progress.

A member of the SUNOCO Group of companies

Parent Company
Sun Company, Inc.
Radnor, Pennsylvania

Subsidiary Companies
Athabasca Realty Company Limited
Fort McMurray and Edmonton, Alberta
Employee Housing

Great Canadian Oil Sands Supply Limited
Fort McMurray and Edmonton, Alberta
Provision of materials and supplies

Associated Companies in Canada
Sun Oil Company Limited and its subsidiaries
Toronto, Ontario
Integrated petroleum company

Sperry-Sun of Canada Limited
Edmonton, Alberta
Well surveying and engineering services

Sunray DX Canada Oil Company
Calgary, Alberta
Exploration and production in Western Canada

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